



Government of the District of Columbia
Muriel Bowser, Mayor
Department of Insurance, Securities and Banking



Chester A. McPherson
Acting Commissioner

**BEFORE THE
INSURANCE COMMISSIONER OF
THE DISTRICT OF COLUMBIA**

Re: Report on Examination – CareFirst Blue Choice, Inc. as of December 31, 2013

ORDER

An Examination of **CareFirst BlueChoice, Inc.** as of December 31, 2013 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

It is hereby ordered on this 19th day of June, 2015, that the attached financial condition examination report be adopted and filed as an official record of this Department.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the Company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.

Chester A. McPherson
Acting Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION

CAREFIRST BLUECHOICE, INC.

AS OF

DECEMBER 31, 2013

NAIC COMPANY CODE 96202

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Washington, D.C.
May 25, 2015

Honorable Chester A. McPherson
Acting Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
810 First Street, NE, Suite 701
Washington, D.C. 20002

Dear Commissioner:

In accordance with Section 31-1402 of the District of Columbia Official Code, we have examined the financial condition and activities of

CareFirst BlueChoice, Inc.
840 First Street N.E.
Washington, D.C. 20065

hereinafter referred to as “CFBC” or “the Company”. The examination was conducted at the administrative office of the Company located at 10455 Mill Run Circle, Owings Mills, MD, 21117. The following Report of Examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The examination, covering the period from January 1, 2009 to December 31, 2013, and including any material transactions and/or events noted occurring subsequent to December 31, 2013, was conducted by examiners representing the District of Columbia Department of Insurance, Securities and Banking (the Department).

The last examination as of Company was a full scope examination, covering the period from January 1, 2004 to December 31, 2008.

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The Company was audited annually by an independent public accounting firm. The firm expressed unqualified opinions on a statutory basis for the Company's financial statements for calendar years 2009 through 2013. We placed substantial reliance on the audited financial statements for calendar years 2009 through 2012, and consequently performed only minimal testing for those periods. We concentrated the examination efforts on the year ended December 31, 2013. We reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2013 and directed efforts to the extent practical to those areas not covered by the firm's audit.

SUMMARY OF SIGNIFICANT FINDINGS

The examination included a review to determine the current status of the comments and recommendations in the preceding Examination Report, dated July 30, 2009, which covered the period from January 1, 2004 to December 31, 2008. The Company had satisfactorily addressed all of those findings.

The examination did not disclose any material adverse findings or any adjustments that impacted the Company's reported capital and surplus.

SUBSEQUENT EVENTS

The Company is subject to an annual fee under Section 9010 of the Affordable Care Act ("ACA"). The annual fee is allocated to individual health insurers based on the ratio of the amount of the entity's net premium written during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. SSAP No. 35R does not require an accrual for this known liability until January 1 of the payment year. The Notes to the 2013 Annual Statement disclosed that the Company estimated the amount of the ACA fee payable on September 30, 2014 to be \$36 million. A review of the Company's records indicated that it paid \$37 million for its portion of the ACA fee during 2014.

HISTORY

General

The Company was incorporated on June 22, 1984, in the District of Columbia under the name of CapitalCare, Inc. On July 26, 2001, the company's name was changed to CareFirst BlueChoice, Inc. to reflect management's intent to create a regional health maintenance organization for the CareFirst, Inc. group of insurance affiliates. On October 10, 2002, one of CareFirst of Maryland, Inc.'s wholly owned subsidiaries CFS Health Group, Inc. (CFS) transferred the net assets of certain of its subsidiaries, including FreeState Health Plan, Inc. (FSHP), Delmarva Health Plan (DHP) and Preferred Health Network of Maryland, Inc. (PHN) to the Company.

CFBC is a state-licensed health maintenance organization, which provides managed health care products and services to individuals and employees of businesses and governmental agencies in the State of Maryland, Washington, D.C. and Northern Virginia. Benefits are provided to members through fee for services and capitation agreements with local area physicians, hospital and other health care providers.

Capitalization

The Company's Articles of Incorporation authorized the Company to issue 25,000 shares of common capital stock with a par value of \$1.00 per share. As of December 31, 2013, the number of shares outstanding was 10,000. These shares had an aggregate par value of \$10,000, and were all issued to the Company's parent, CareFirst Holdings, Inc (CFH). The number of issued shares and the par value per share were unchanged during the examination period. The amount of the gross paid in and contributed surplus remains unchanged at \$50,615,750.

Surplus Note

The Company has issued no surplus notes during the examination period.

Dividends to Stockholders

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The Company did not declare or pay dividends to its parent during the period covered by the examination.

Subsidiaries

The Company has two subsidiaries, CapitalCare, Inc. and The Dental Network, Inc. CapitalCare, Inc. (CapCare) commenced doing business on May 1, 2002 as a health maintenance organization (HMO) which provided managed health care products and services to individuals and businesses in the Commonwealth of Virginia. Effective July 31, 2010, CapCare terminated all of its insurance coverage obligations. The groups insured by CapCare were transferred to Anthem Health Plans of Virginia, Inc. on July 31, 2010. Effective December 13, 2011, CapCare withdrew its HMO license and became a non-insurance entity. CapCare is no longer subject to statutory or regulatory reserve requirements.

The Dental Network, Inc. (TDN) was formed on September 20, 2007 to meet the regulatory requirements of selling freestanding dental products in the State of Maryland. In March 2008, TDN obtained a license to sell insurance products in the State of Maryland from the Maryland Insurance Administration.

Management

Board of Directors

The By-Laws state that the governing body of the Company shall be the Board of Directors, which shall conduct the business and affairs of the Company. All board members are elected at the annual meeting of shareholders. The By-Laws currently call for at least three (3) members.

The following individuals were serving on the Company's Board of Directors as of December 31, 2013:

<u>Name and Address</u>	<u>Principal Occupation</u>
Larry D. Bailey Washington, D.C	President LDB Consulting
John F. Reim Potomac, Maryland	Executive Director Morgan Stanley
James Wallace Washington, D.C.	CPA Wallace Group

Officers

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The By-Laws require the following officers: chairman of the Board of Directors, a president, a secretary and a treasurer. The Board elects these officers of the Company and other officer positions at its annual meeting. Each officer serves until a successor is elected or until removed by the Board. The following persons were serving as the Company's officers as of December 31, 2013:

<u>Name</u>	<u>Title</u>
James Wallace	Interim Chair of the Board of Directors
Chester E. Burrell	President, Chief Executive Officer
Meryl D. Burgin	Executive Vice President, General Counsel and Secretary
Gregory M. Chaney	Executive Vice President, Chief Financial Officer
William S. Gould	Executive Vice President, Medical Affairs
John J. Kaelin	Executive Vice President, Strategic Business Development
Fred A. Plumb	Executive Vice President, SBU – FEP
Michael T. Avotins	Senior Vice President, ASU – Large Groups
Jennifer A. Baldwin	Senior Vice President, Patient Centered Medical Home
Rita A. Costello	Senior Vice President, Strategic Marketing
Michael B. Edwards	Senior Vice President, Networks Management
Michael J. Felber	Senior Vice President, Sales
Harry D. Fox	Senior Vice President, Technical and Ops Support
Kenny W. Kan	Senior Vice President, Chief Actuary
Stephen J. Margolis	Senior Vice President, ASU – Small and Medium Groups
Wanda K. Oneferu-Bey	Senior Vice President, ASU – Consumer Direct
Jon P. Shematek	Senior Vice President, Chief Medical Officer
Gwendolyn D. Skillern	Senior Vice President, General Auditor
Maria H. Tildon	Senior Vice President, Public Policy
Michelle J. Wright	Senior Vice President, Human Resources
Jeanne A. Kennedy	Vice President, Treasurer

Committees

As of December 31, 2013, the Company did not have any committees. The Company's Board of Directors designated the Audit and Compliance Committee of its ultimate parent (CareFirst Inc.) as its independent audit committee to perform the committee requirements of Section 31-706(c)(5) of the District of Columbia Official Code.

Conflict of Interest

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The By-Laws state that the Board of Directors shall adopt a code of business conduct and compliance that governs the conduct of the Company's directors, officers and associates. In accordance with the By-Law, the Company adopted a conflict-of-interest policy. This policy required all directors, officers, and associates to annually complete a Conflict of Interest Disclosure Statement documenting any potential conflicts.

A review of the completed questionnaires for calendar years 2009 to 2013 indicated no reported conflicts. In addition, we did not note any potential conflicts of interest during the examination.

Corporate Records

The Company's Articles and By-Laws were unchanged during the examination period.

The minutes of the meetings of the Company's Shareholder(s) and Board of Directors for the period under examination were also reviewed. The Company designated the audit committee of its ultimate parent, CareFirst, Inc. to perform certain required functions on its behalf (see "Committees" section above). The minutes documented the Company's significant transactions and events, which the directors then approved.

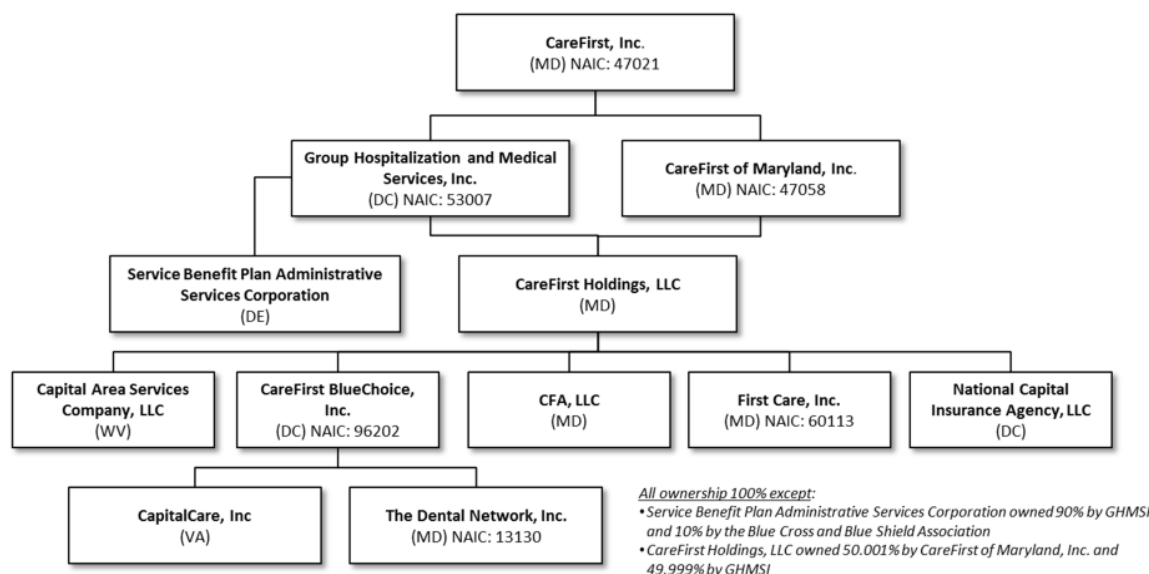
AFFILIATED COMPANIES

The Company is a wholly-owned subsidiary of CFH. CFH was formed on December 31, 2010 by contributed assets from CareFirst of Maryland, Inc. (CFMI) and Group Hospitalization and Medical Services, Inc. (GHMSI). CFH and its subsidiaries are owned 50.001% by CFMI and 49.999% by the GHMSI. Both CFMI and GHMSI do business as CareFirst BlueCross BlueShield and are both affiliates of a not-for profit parent company, CareFirst, Inc.

ORGANIZATION CHART

The CareFirst, Inc. holding company structure as of December 31, 2013, is depicted in the following organizational chart:

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INTERCOMPANY AGREEMENTS

In addition to intercompany reinsurance agreements described below under the “Reinsurance” caption of this Report, the Company has entered into the following intercompany agreements:

Intercompany Agreement

Effective December 31, 2010, CareFirst, Inc. (CFI), CFMI, GHMSI and CFH entered into an intercompany agreement which requires that in the event that the capital reserves of the entities or their respective subsidiaries (including the Company), who are required by law to maintain a statutory or regulatory requirement, fall below their respective statutory, regulatory, or BCBSA requirements, the party with the shortfall shall notify all other parties of the shortfall. The other parties, subject to certain terms, conditions and limitations, shall transfer to the requesting party such financial resources as needed to satisfy the shortfall. In addition to reserve shortfalls, the agreement provides for financial support for other situations including the inability to pay claims and/or other legally enforceable obligations including, but not limited to, creditor demands, judgments and surplus notes. The determination as to whether any of the aforementioned conditions exists shall be made by the Board of Directors of CFI.

Administrative Services Agreement

Effective January 1, 2009, CareFirst, Inc., CFMI, GHMSI and all of their respective subsidiaries (including the Company) entered into an administrative services agreement. The agreement calls for CFMI and GHMSI to provide its parent and other related entities, including each other, with administrative and operational support services. In consideration for the services provided, CFMI and GHMSI are paid a fee based upon direct and indirect costs plus a

mark-up based on market rates (as approved by the Commissioners of Maryland and the District of Columbia). Settlements of amounts due occur on a monthly basis.

Administrative Services Agreement with Capital Area Services Company, LLC

Effective January 1, 2010, CFMI, GHMSI, the Company, First Care, Inc. and the Dental Network, Inc. entered into an administrative services agreement with Capital Area Services Company, LLC (CACSI). The agreement calls for CACSI to perform the following services: 1) Claims processing, adjudication and customer services; 2) Document storage and retention; and 3) Miscellaneous administrative services. In consideration for the services provided, CACSI is paid a fee based upon direct and indirect costs plus a mark-up based on market rates (as approved by the Commissioners of Maryland and the District of Columbia). Settlements of amounts due occur on a monthly basis.

Network Access Agreement

Effective April 1, 2008, GHMSI and the Company entered into a Network Access Agreement with The Dental Network, Inc. (TDN). The agreement calls for TDN to provide GHMSI and the Company access to its provider network in the state of Maryland and its benefits administration services. In exchange, the Company and GHMSI will pay TDN a set amount per member per month to be paid monthly.

Tax Sharing Agreement

Effective December 31, 2010, the Company entered into a Tax Sharing Agreement with its subsidiaries, CapitalCare, Inc. and The Dental Network, Inc. The agreement calls for allocation of current federal and state (where permitted) income tax liability/recoverable attributable to the companies on the basis of the percentage of the consolidated federal income tax liability/recoverable attributable to the companies computed on a separate company basis to the total consolidated federal income tax liability/recoverable.

FIDELITY BOND AND OTHER INSURANCE

As of December 31, 2013, the Company along with other affiliates was included as a named insured in its parent's blanket fidelity bond. The amount of the fidelity bond coverage was \$5,000,000 with a \$100,000 deductible. The Parent's blanket fidelity bond exceeds the amount of the minimum coverage recommended by the National Association of Insurance Commissioners for the consolidated group.

The Company is a named insured on other policies of insurance in accordance with its procedures to manage insurable risks.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

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The Company has no employees. All personnel and their related costs are allocated to the Company through administrative service agreements described above under “Intercompany Agreements.”

STATUTORY DEPOSITS

In compliance with Section 31-3412(b) of the District of Columbia Official Code requirement of maintaining a minimum deposit of \$300,000 value, the Company has deposited in trust with Suntrust Bank, a United States Treasury Bond, with a total par value of \$300,000 and a fair market value of \$300,246 as of December 31, 2013. These funds were held for the protection of all of the Company’s policyholders and creditors.

In addition, as of December 31, 2013, the Company had deposits, consisting of a United States Treasury Bond and Short-Term Investments with the Commonwealth of Virginia and Maryland, respectively. The Virginia Special Deposit was held for the protection of the policyholders in Virginia. The Maryland Special Deposit is required to satisfy obligations to external providers for services rendered on behalf of members of the Company.

<u>Jurisdiction</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Security Type</u>
District of Columbia	\$300,000	\$300,246	S/T Investment
Maryland	469,504	469,504	Bond
Virginia	700,000	701,533	S/T Investment
Totals	<u>\$1,469,504</u>	<u>\$1,471,283</u>	

TERRITORY AND PLAN OF OPERATION

The Company provides managed health care products and services to individuals and to employees of businesses and governmental agencies in the Washington, D.C. metropolitan area, Northern Virginia and the state of Maryland. Benefits are provided to member through fee-for-service and capitation agreements with local area physicians, hospitals and other health care providers.

GROWTH OF COMPANY

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total Admitted Assets	\$1,043,163,124	\$992,377,414	\$1,013,897,116	\$900,091,300	\$709,224,997
Total Liabilities	309,812,328	321,207,906	340,825,024	258,991,793	238,488,527
Total Capital and Surplus	733,350,796	671,169,508	673,072,092	641,099,507	470,736,470
Premium Income	2,392,136,068	2,137,224,210	2,053,415,111	1,973,676,337	1,874,053,739
Net Underwriting Gain /(Loss)	53,256,477	(2,797,753)	33,283,229	179,528,071	25,630,866
Net Income/(Loss)	69,214,184	25,940,441	40,403,902	166,525,855	48,411,218

LOSS EXPERIENCE

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	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Premium Income	\$2,399,310,580	\$2,163,575,600	\$2,006,609,276	\$1,992,385,693	\$1,876,691,269
Medical and Hospital Experience	1,911,857,575	1,770,700,981	1,597,017,104	1,442,509,954	1,518,304,942
Pure Loss Ratio	79.68%	81.84%	79.59%	72.40%	80.90%

REINSURANCE

The Company was party to the following reinsurance agreements:

Quota-Share Reinsurance Contract between the Company and The Dental Network, Inc.

Effective April 1, 2008, the Company entered into a Quota-Share Reinsurance Contract with The Dental Network, Inc. (TDN). Under the terms of the agreement, the Company assumes all underwriting risk for TDN. Cash settlements will be paid within 30 days after invoiced. The Company will contribute capital to TDN as necessary to maintain sufficient levels of capital and surplus to maintain all regulatory, statutory and BCBSA requirements.

Stop Loss Reinsurance Contract between GHMSI, CFMI and the Company

Effective January 1, 2009, GHMSI and CFMI (collectively the Reinsurers) entered into a Stop Loss Reinsurance Contract with the Company. Under the terms of the agreement, the Reinsurers provide stop loss coverage for all of the Company's claims that exceed 105% Medical Loss Ratio. The reinsurers share any liability based upon their respective ownership percentage in the Company at the beginning of the calendar year.

ACCOUNTS AND RECORDS

The Company's general accounting records consisted of an automated general ledger and various subsidiary ledgers (e.g., cash receipts, cash disbursements). A review did not disclose any significant deficiencies in these records.

FINANCIAL STATEMENTS

The financial statements listed below are reflected on the following pages and present the financial condition of the Company as of December 31, 2013, as determined by this examination:

Statement of Assets, Liabilities, Capital and Surplus
Assets
Liabilities, Capital and Surplus
Statement of Revenue and Expenses
Statement of Capital and Surplus Account
Reconciliation of Surplus
Analysis of Examination Changes to Surplus

The accompanying “Notes to Financial Statements” are an integral part of these financial statements.

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Statement of Assets and Liabilities

**Assets
As of December 31, 2013**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 637,103,861	\$ 0	\$ 637,103,861
Common stocks	137,438,765	12,487	137,426,278
Cash , cash equivalents and short-term investments	65,291,090	0	65,291,090
Investment income due and accrued	4,643,420	0	4,643,420
Uncollected premiums and agents' balances in the course of collection	66,961,633	2,576,702	64,384,931
Other amounts receivable under reinsurance contracts	635,042	0	635,042
Current federal and foreign income tax recoverable and interest thereon	5,999,727	0	5,999,727
Net deferred tax asset	7,720,368	0	7,720,368
Receivables from parent, subsidiaries and affiliates	58,747,296	0	58,747,296
Health care and other amounts receivable	65,255,163	4,044,052	61,211,111
Aggregate write-ins for other-than-invested assets	<u>1,403,554</u>	<u>1,403,554</u>	<u>0</u>
Totals	\$ <u>1,051,199,919</u>	\$ <u>8,036,795</u>	\$ <u>1,043,163,124</u>

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Statement of Assets and Liabilities

**Liabilities, Capital and Surplus
As of December 31, 2013**

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>
Claims unpaid (Note 1)	\$ 136,440,153	\$ 1,789,559	\$ 138,229,712
Unpaid claims adjustment expenses (Note 1)	5,774,101	75,734	5,849,835
Aggregate health policy reserves, including the liability of \$0 for medical loss ratio rebate per the Public Health Service Act	24,906,663	0	24,906,663
Premiums received in advance	53,978,404	0	53,978,404
General expenses due or accrued	29,775,212	0	29,775,212
Amounts withheld or retained for the account of others	4,034,459	0	4,034,459
Remittances and items not allocated	1,417,198	0	1,417,198
Amounts due to parent, subsidiaries and affiliates	3,775,327	0	3,775,327
Aggregate write-ins for other liabilities	47,845,518	0	47,845,518
Total liabilities	\$ <u>307,947,035</u>	\$ <u>1,865,293</u>	<u>309,812,328</u>
Common capital stock			10,000
Gross paid in and contributed surplus			50,615,750
Unassigned funds (surplus)			682,725,046
Total capital and surplus			<u>733,350,796</u>
Total liabilities, capital and surplus		\$	<u><u>1,043,163,124</u></u>

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Statement of Revenue and Expenses

For the Year Ended December 31, 2013

	<u>Uncovered</u>	<u>Total</u>
Member months	XXX	6,780,748
Net premium income	XXX	\$ 2,392,136,068
Change in unearned premium reserves and reserve for rate credits	XXX	7,174,512
Aggregate write-ins for other health care related revenues	XXX	2,022,782
Total revenues	XXX	<u>2,401,333,362</u>
Hospital and Medical:		
Hospital/medical benefits	\$ 11,352,194	1,333,583,923
Other professional services	0	96,789,460
Outside referrals	12,635,243	12,635,244
Emergency room and out-of-area	694,493	69,657,169
Prescription drugs	0	393,824,140
Subtotal	<u>24,681,930</u>	<u>1,906,489,936</u>
Less: Net reinsurance recoveries	0	(5,367,639)
Total hospital and medical	<u>24,681,930</u>	<u>1,911,857,575</u>
Claims adjustment expenses, including \$42,681,256 cost containment expenses	0	105,307,341
General administrative expenses	0	330,911,969
Total underwriting deductions	<u>24,681,930</u>	<u>2,348,076,885</u>
Net underwriting gain or (loss)	XXX	<u>53,256,477</u>
Net investment income earned	0	16,362,382
Net realized capital gains or (losses) less capital gains tax	0	13,051,331
Net investment gains or (losses)	0	29,413,713
Aggregate write-ins for other income or expenses	0	<u>206,041</u>
Net income or (loss), after capital gains tax and before all other federal income taxes	XXX	82,876,231
Federal and foreign income taxes incurred	XXX	<u>13,662,047</u>
Net income (loss)	XXX	<u>\$ 69,214,184</u>

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Capital and Surplus Account

For the Year Ended December 31, 2013

Capital and surplus, December 31, 2012	\$ <u>671,169,508</u>
Net income or (loss)	69,214,184
Change in net unrealized capital gains (losses) less capital gains tax	(1,875,258)
Change in net deferred income tax	(3,615,875)
Change in nonadmitted assets	<u>(1,541,763)</u>
Net change in capital and surplus	<u>62,181,288</u>
Capital and surplus, December 31, 2013	\$ <u>733,350,796</u>

CareFirst BlueChoice, Inc.
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Reconciliation of Surplus

From January 1, 2009 through December 31, 2013

Capital and surplus, December 31, 2008	\$ 406,675,383
2009	
Net income or (loss)	48,411,218
Change in net unrealized capital gains (losses) less capital gains tax of \$3,508,813	7,074,075
Change in net deferred income tax	3,166,728
Change in nonadmitted assets	3,924,924
Cumulative effect of changes in accounting principles	308,708
Aggregate write-ins for gains or (losses) in surplus	1,175,434
Net change in capital and surplus	<u>64,061,087</u>
Capital and surplus, December 31, 2009	<u>470,736,470</u>
2010	
Net income or (loss)	166,525,855
Change in net unrealized capital gains (losses) less capital gains tax of \$2,300,901	4,666,853
Change in net deferred income tax	1,496,726
Change in nonadmitted assets	(2,326,395)
Net change in capital and surplus	<u>170,363,039</u>
Capital and surplus, December 31, 2010	<u>641,099,507</u>
2011	
Net income or (loss)	40,403,902
Change in net unrealized capital gains (losses) less capital gains tax of \$-4,139,078	(7,568,074)
Change in net deferred income tax	1,836,897
Change in nonadmitted assets	(2,983,121)
Aggregate write-ins for gains or (losses) in surplus	282,977
Net change in capital and surplus	<u>31,972,581</u>
Capital and surplus, December 31, 2011	<u>673,072,092</u>
2012	
Net income or (loss)	25,940,441
Change in net unrealized capital gains (losses) less capital gains tax of \$3,470,676	6,469,616
Change in net deferred income tax	(4,347,087)
Change in nonadmitted assets	10,038,891
Cumulative effect of changes in accounting principles	(40,004,386)
Aggregate write-ins for gains or (losses) in surplus	(56)
Net change in capital and surplus	<u>(1,902,581)</u>
Capital and surplus, December 31, 2012	<u>671,169,508</u>
2013	
Net income or (loss)	69,214,184
Change in net unrealized capital gains (losses) less capital gains tax of \$-1,029,020	(1,875,258)
Change in net deferred income tax	(3,615,875)
Change in nonadmitted assets	(1,541,763)
Net change in capital and surplus	<u>62,181,288</u>
Capital and surplus, December 31, 2013	<u>\$ 733,350,796</u>

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Analysis of Examination Changes to Surplus

There were no changes to the Company's surplus as a result of this examination.

NOTES TO FINANCIAL STATEMENT

Note 1 – Claims unpaid & Unpaid Claims Adjustment Expenses

In connection with this examination, the Department retained an independent actuary to conduct a review of actuarially determined accounts. No significant adverse issues were noted as a result of that review.

COMMENTS AND RECOMMENDATIONS

There were no significant adverse findings as a result of the examination.

CONCLUSION

The examination disclosed that as of December 31, 2013 the Company had:

Admitted assets	\$1,043,163,124
Liabilities	309,812,328
Common capital stock	10,000
Gross paid in and contributed surplus	50,615,750
Unassigned funds (surplus)	682,725,046
Total capital and surplus	733,350,796
Total liabilities, capital and surplus	\$1,043,163,124

Based on the examination, the accompanying balance sheet properly presents the statutory financial position of the Company as of December 31, 2013, and the accompanying statement of income properly presents the statutory results of operations for the period then ended. The supporting financial statements properly present the information prescribed by the District of Columbia Official Code and the National Association of Insurance Commissioners.

Chapters 20 (“Risk-Based Capital”) and 34 (“Health Maintenance Organizations”) of Title 31 (“Insurance and Securities”) of the District of Columbia Official Code specify the level of capital and surplus required for the Company. The Company’s capital and surplus funds exceeded the minimum requirements during the period under examination.

CareFirst BlueChoice, Inc.

Report on Examination
December 31, 2013

SIGNATURES

In addition to the undersigned, the following examiners representing the District of Columbia Department of Insurance, Securities and Banking participated in certain phases of this examination:

Chidinma Ukairo, District of Columbia Department of Insurance, Securities and Banking
Donna Novak, NovaRest Consulting
Joseph Detrick, Bostick/Crawford Consulting Group
David Habony, Bostick/Crawford Consulting Group
Jenny Jeffers, Bostick/Crawford Consulting Group
Joanna Latham, Bostick/Crawford Consulting Group
Michael McNulty, Bostick/Crawford Consulting Group
Lindsey Pittman, Bostick/Crawford Consulting Group

Respectfully submitted,



Robert F. Crawford, CFE

Examiner-in-Charge

On behalf of the District of Columbia
Department of Insurance, Securities and
Banking

Under the Supervision of



Nathaniel Kevin Brown, CFE

District of Columbia Department of
Insurance, Securities and Banking